

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CITIPOWER, LCC FOR)	
RATE ADJUSTMENT FOR SMALL UTILITIES)	CASE NO.
PURSUANT TO 807 KAR 5:076)	2008-00392

FIRST DATA REQUEST OF
COMMISSION STAFF TO CITIPOWER, LLC

Citipower LLC ("Citipower"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than November 18, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Citipower shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Citipower fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to paragraph 2 on page 2 of Exhibit 1 of Citipower's application, specifically, the amendments described for Citipower's 2007 annual report filed with the Commission.

a. Line 902, Meter Reading Labor, increased from \$273 to \$91,277. Describe the manner in which Citipower performs meter reading, including the number of meter readers and whether they are Citipower employees or outside contractors. If they are Citipower employees, provide their annual and/or hourly rates of compensation and identify and describe the job duties they perform other than meter reading.

b. Line 903, Customer Records, increased from \$99 to \$33,605. Describe the manner in which Citipower maintains customer records, including whether the work is performed by Citipower employees, by outside contractors, or by Citienergy employees with the cost allocated to Citipower.

c. Meter Reading Labor increased \$91,004, and Customer Records increased \$33,506, which totals \$124,510. Although not identified as such, it appears that these increases were offset by the reduction to Line 920, Administrative Salaries.

Provide confirmation that these increases reflect the reclassification of amounts initially reported as administrative salaries.

2. Refer to paragraph 3 on page 2 of Exhibit 1 of Citipower's application.

a. Clarify whether the \$110,000 identified as unpaid management fees was incurred solely for calendar year 2007.

b. The third sentence in the paragraph states that Citipower did not pay its management fees owed to Citienergy due to cash flow issues. Describe the nature of the cash flow issues and explain what actions, if any, Citipower has taken to address these issues.

c. The amount originally reported as Administrative Salaries was \$210,795, which was reduced by \$124,510, for a difference of \$86,285. Identify and describe the nature of the \$86,285 in Administrative Salaries, which appears to be in addition to the aforementioned management fees.

3. Refer to Paragraph 5 on page 3 of Exhibit 1 of Citipower's application.

a. Explain how 13 percent was selected as the proposed "profit return" and provide the calculation which results in the \$1.78 per Mcf proposed rate increase.

b. In the Staff Report issued in Case No. 1999-00225,¹ an 88-percent operating ratio was used to determine Citipower's revenue requirement, which is the method typically used by the Commission in cases involving smaller investor-owned utilities. Explain why Citipower did not use this method to calculate its proposed increase in revenues.

¹ Case No. 1999-00225, The Alternative Rate Filing of Citipower, LLC.

c. Provide the calculation, based on recapturing the loss of \$249,848 incurred in 2007, which results in the proposed increase of \$2.88 per Mcf.

4. Refer to Citipower's response to the Commission's September 30, 2008 deficiency letter, which shows the number of bills rendered and Mcf sales by customer class for calendar year 2007.

a. Provide an analysis of the 2007 sales volumes which breaks them down by customer class on a monthly basis and which shows, also on a monthly basis, the Gas Cost Adjustment component of the rates charged by Citipower in 2007.

b. Describe the process and timetable under which Citipower operates when recording revenues from gas sales. The response must clearly indicate whether the revenues derived from Mcf sales for a specific month are recorded in that same month or if revenues lag Mcf sales until the following month.

c. Over 75 percent of Citipower's Mcf sales in 2007 are identified as sales to the "Public" customer class. Clarify whether "Public" is the same customer class identified in Citipower's tariffs as "Institutional" and explain why this class accounts for such a large part of Citipower's sales volumes.

5. Refer to Exhibit 2 of Citipower's application, specifically the column headed "2007," and to the Statement of Income in Citipower's revised 2007 annual report filed with the Commission. Other Income of \$14,021 consists of \$284 in Interest and Dividend Income and net revenues of \$13,737 from Non-utility Operations, as shown on the Statement of Income. Provide a full description of the non-utility activities in which Citipower is involved.

6. Refer to Exhibit 2 of Citipower's application. Explain the changes from calendar year 2006 to calendar year 2007 in the following expense items.

a. Account 853, Compressor Station Expenses – decreased from \$3,373 to zero.

b. Account 858, Transmission Compression by Others – increased from zero to \$3,857.

c. Account 860, Rents, decreased from \$32,949 to zero.

d. Account 864, Maintenance of Compression Equipment – decreased from \$3,235 to zero.

e. Account 867, Maintenance of Other Equipment – increased from zero to \$18,344.

f. Account 881, Rents – decreased from \$9,585 to zero.

g. Account 902, Meter Reading Labor – increased from \$78,883 to \$91,277.

h. Account 921, Office Supplies – decreased from \$28,824 to \$12,869.

i. Account 923, Outside Service Employed – decreased from \$92,755 to \$76,447.

7. Refer to Exhibit 2 of Citipower's application and to Citipower's revised 2007 annual report filed with the Commission, specifically the Statement of Income and the Summary of Utility Plant and Accumulated Provisions for Depreciation, Amortization and Depletion schedule.

a. The amortization expense shown on Exhibit 2 is identified on the Statement of Income as Amortization of Utility Plant Acquisition Adjustment. The summary schedule in the annual report lists \$306,017 as Acquisition Adjustments. Describe the nature of these Acquisition Adjustments and explain whether the \$13,188 expense represents the annual amortization of the Acquisition Adjustments.

b. The issue of Amortization Expense was addressed on page 32 of the Staff Report issued in Case No. 1999-00225. The report, which was subsequently adopted by the Commission, noted that in response to a data request Citipower had stated that the amortization expense it reported in 1998 was for organizational costs, not an acquisition adjustment, and that its 1998 annual report showed \$73,350 in organizational costs recorded that year. Describe in detail the subsequent reporting and disposition, if any, of those organization costs.

8. Refer to Exhibit 3 of Citipower's application, its \$250,000 promissory note to Citienergy LLC dated October 4, 2005, which has a term of 8 years.

a. In Case No. 2004-00123,² the Commission denied Citipower's request for approval of financing which included the costs of both regulated and non-regulated acquisitions, but indicated that if Citipower were to request approval of the indebtedness used solely for its regulated operations "... such request will be favorably considered." Explain whether Citipower sought Commission approval of the October 4, 2005 promissory note.

b. The Commission's December 14, 2004 Order in Case No. 2004-00123 also referred to certain aspects of Citipower's proposed corporate reorganization,

² Case No. 2004-00123, Application of Citipower, LLC for Approval of Note Renewal, Order dated December 14, 2004.

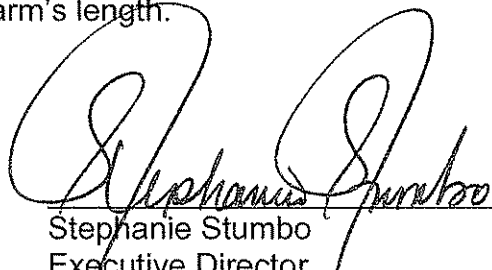
which the Commission approved in Case No. 2004-00444.³ Specifically concerning the reconfiguration of its financing, after the newly created holding company paid off the portion of the bank note related to Citipower's non-regulated business activities, the Order noted that the remaining "... \$250,000 will remain with Citipower and be paid off with funds owed to Citipower by another associated company." The Order's footnote reference for that statement cites Citipower's application in Case No. 2004-00444 which stated that while Citipower was liable for the remaining \$250,000 of the bank note, it was "... owed \$250,000 by Forexeco, Inc., which debt will be paid by Forexeco, Inc. on or before December 31, 2004." Explain whether the \$250,000 was paid off by Forexeco, Inc. or with the proceeds of the promissory note with Citienergy, LLC.

c. Citipower's revised 2007 annual report filed with the Commission shows a note payable to Citienergy, LLC in the amount of \$211,396. Explain whether this is the outstanding balance of the October 4, 2005 \$250,000 promissory note.

d. The promissory note carries an interest rate of 9.25 percent. Explain how it was determined that a promissory note with Citienergy, LLC, at a 9.25 percent interest rate, was in the best interests of Citipower and its ratepayers, and explain whether the transaction was conducted at arm's length.

DATED: OCTOBER 29, 2008

cc: All parties


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³ Case No. 2004-00444, Application of Citipower, LLC for Approval of Reorganization Proposal, Order dated April 14, 2005.